

## Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 NEA-10 IO-13 ISO-00 AID-05 CIAE-00  
COME-00 EB-08 FRB-03 INR-10 NSAE-00 ICA-11  
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01  
NSC-05 SS-15 STR-07 CEA-01 AGRE-00 DOE-15 SOE-02  
OES-09 /150 W

-----063356 011434Z /11

R 311635Z AUG 78  
FM AMEMBASSY NOUAKCHOTT  
TO SECSTATE WASHDC 329  
INFO AMEMBASSY ALGIERS  
AMEMBASSY BAMAKO  
AMEMBASSY BRUSSELS  
AMEMBASSY DAKAR  
AMEMBASSY JIDDA  
AMEMBASSY MADRID  
AMEMBASSY PARIS  
AMEMBASSY RABAT  
AMEMBASSY TRIPOLI  
USMISSION GENEVA

C O N F I D E N T I A L SECTION 1 OF 2 NOUAKCHOTT 2554

E.O. 11652: GDS  
TAGS: ECON, EFIN, EINV, MR  
SUBJ: GIRM ANALYSIS OF ITS ECONOMIC SITUATION

REF: A) NOUAKCHOTT 2421, B) NOUAKCHOTT 2510 (NOTAL)

1. EMBASSY HAS OBTAINED COPY OF STUDY PREPARED FOR GOVERNMENT OF MAURITANIA'S (GIRM) GOVERNING MILITARY COMMITTEE BY MINISTRY OF PLANS AND MINES ENTITLES "PANORAMA OF THE ECONOMIC SITUATION". WHILE THE DOCUMENT BEARS NO SECURITY MARKINGS, IT IS OBVIOUSLY MEANT FOR IN-HOUSE CONSUMPTION. IT DESCRIBES MAURITANIA'S ECONOMIC ILLS IN SOME DETAIL AND PRESCRIBES REMEDIES, SOME OF WHICH SEEM IMPROBABLE. IT CORROBORATES AND  
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PERMITS US TO ELABORATE UPON WHAT WAS REPORTED IN NOUAKCHOTT 2421. ALL FIGURES CITED ARE U.S. DOLLARS ROUNDED OFF.

2. THE STUDY GIVES SEVERAL REASONS FOR MAURITANIA'S NEGATIVE GDP GROWTH (9.4 PERCENT) IN SPITE OF AN INCREASING RATE OF INVESTMENT DURING PERIOD 1970-1977 TO WIT: (A) THE DROUGHT, (B) DROP IN WORLD MARKET IRON ORE PRICES, (C) REDUCTION IN

QUANTITY OF IRON ORE EXPORTED BECAUSE OF THE WAR, AND (D) "ABOVE ALL" THE DISASTROUS INVESTMENT POLICY. ACTUAL COST OF THE WESTERN SAHARA CONFLICT, PER SE, IS NOT LISTED AS ONE OF THE REASONS. IT GOES ON TO SAY THAT DETERIORATION OF THE GDP HAS GRAVE CONSEQUENCES ON (A) THE EXTERNAL DEBT WHICH HAS REACHED ENORMOUS PROPORTIONS, (B) THE NATIONAL BUDGET WHICH IS NOW FACING A DEFICIT THE LIKES OF WHICH WAS NEVER REACHED BEFORE, (C) AN ALREADY LARGE BALANCE OF PAYMENTS DEFICIT WHICH HAS INCREASED DANGEROUSLY.

3. CONCERNING THE EXTERNAL DEBT, THE REPORT STATES THAT WHEREAS A RATIONAL POLICY WOULD AIM AT MAINTAINING A REPAYMENT CEILING EQUIVALENT TO 10 PERCENT OF THE VALUE OF EXPORTS OR AROUND 17.6 MILLION DOLS IN 1978, THE ACTUAL CUMULATIVE DEBT SERVICE OBLIGATION AS OF MARCH 1978 WAS 70 MILLION DOLS OR 39 PERCENT OF THIS YEAR'S ANTICIPATED EXPORT EARNINGS. AS INDICATED IN REFTEL THE CURRENT OUTSTANDING EXTERNAL DEBT STANDS AT 711 MILLION DOLS.

4. A BUDGETARY DEFICIT OF CIRCA 122 MILLION DOLS IS FORECAST FOR 1978 ASSUMING THAT THE PUBLIC DEBT CAN BE RESTRUCTURED TO REDUCE 1978 REPAYMENT OBLIGATIONS TO 33 MILLION DOLS.

5. THE NET BALANCE OF PAYMENTS DEFICIT IS SHOWN AS 96 MILLION DOLLARS. THE REPORT STATES THAT IF THE PUBLIC DEBT CAN BE RESTRUCTURED, THE DEFICITS FOR 1981 TO 1983 CAN BE ABSORBED, CONFIDENTIAL

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AND THAT 1984 WILL SHOW A SURPLUS BALANCE OF 70 MILLION DOLS. THIS PRESUPPOSES A TREBLING OF VALUE OF EXPORTS (170MILLION DOLS TO 510 MILLION DOLS WHILE VALUE OF IMPORTS FROM 1978 59 1984 WILL EXPERIENCE A MODEST RISE OF LESS THAN 33 PERCENT, THAT IS FROM 330 MILLION DOLS TO CIRCA 420 MILLION DOLS. THE INCREASE IN EXPORTS REFLECTS A PROJECTED DOUBLING OF IRON ORE SALES, 6.8 MILLION TONS IN 1977 TO 13 MILLION TONS IN 1982.

6. APPROXIMATELY 1/3 OF THE 30-PAGE REPORT IS DEVOTED TO DESCRIPTIONS OF THE FORMER GOVERNMENT'S UNSUCCESSFUL INDUSTRIAL DEVELOPMENT SCHEMES. FOUR OF THEM ARE SINGLED OUT FOR CRITICISM:

- THE 100 MILLION DOLS AUSTRIAN-BUILT OIL REFINERY IN NOUADHIBOU;
- THE SOMIMA COPPER VENTURE IN AKJOUJT THAT INCURRED A LOSS OF 10 MILLION DOLS A YEAR SINCE 1975;
- AN AMERICAN-BUILT SUGAR REFINERY IN NOUAKCHOTT WHICH GIRM CLAIMS HAS COST 33 MILLION DOLS EXCLUSIVE OF INTEREST AND BANK CHARGES ( NOUAKCHOTT 2510 NOTAL);
- THE 18 MILLION DOLLAR ELECTRIC POWER PLANT IN NOUADHIBOU, WHICH WILL COST ANOTHER 150 THOUSAND DOLS A MONTH FOR MAINTENANCE EVEN THOUGH IT IS NOT OPERATING.

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C O N F I D E N T I A L SECTION 2 OF 2 NOUAKCHOTT 2554

7. THE REPORT WORRIES ABOUT THE HEALTH OF BOTH GOVERNMENT-OWNED COMPANIES AND SO-CALLED MIXED ECONOMY CORPORATIONS. THE NATIONAL INDUSTRIAL AND MINING COMPANY (SNIM) IS SCRUTINIZED CLOSELY AND DETAILS ARE PROVIDED REGARDING THE CREATION ON APRIL 15, 1978 OF A NEW MIXED ECONOMY COOPERATION "LA SOCIETE D'ECONOMIE MIXTE" (SNIM-SEM) WHICH PERMITS PARTICIPATION IN EQUITY OWNERSHIP BY PRIVATE AND FOREIGN MAURITANIAN INVESTORS. 38 MILLION DOLS IN SHARES HAD BEEN SOLD TENTATIVELY PRIOR TO THE COUP. AS REPORTED PREVIOUSLY, THE FINANCING FOR GUELBS SEEMS TO BE WELL IN HAND.

8. THE STUDY PROPOSES THE FOLLOWING GENERAL SOLUTIONS TO THE THREE BASIC PROBLEMS:  
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A) EXTERNAL DEBT-- RESTRUCTURE 215 MILLION DOLS  
WORTH OF HIGH COST SHORT TERM LOANS TO PERMIT REPAYMENT  
AT TWO PERCENT PER ANNUM OVER 30 YEARS WITH FIVE YEARS GRACE.  
MOST OF THE HIGH INTEREST MONEY SEEMS TO HAVE BEEN BORROWED  
FROM SAUDI ARABIA (48 MILLION DOLS), KUWAIT (30 MILLION DOLS),  
AUSTRIAN VOEST ALPINE (66 MILLION DOLS). THE LIBYANS,  
MOROCCANS AND ALGERIANS QUOTE DE FACTO END QUOTE HAVE ALREADY  
RESTRUCTURED THEIR LOANS.

B) NATIONAL BUDGET-- OF THE 122 MILLION DOLS DEFICPA,  
52 MILLION DOLS HAVE BEEN FOUND OR ARE AT THE POINT OF BEING  
FOUND:

- 22 MILLION DOLS ADVANCE FROM THE BANQUE CENTRAL;D
- 20 MILLION DOLS FROM STABEX CLAUSE OF LOME II CONVENTION;
- 4 MILLION DOLS FROM IMF;
- 6 MILLION DOLS FROM IRAQ.

THE GIRM WILL LOOK TO FRANCE AND SAUDI ARABIA FOR THE  
REMAINING 70 MILLION DOLS. ELSEWHERE, CERTAIN LOANS ALREADY  
CONTRACTED FOR UNDERCDELATIVELY HARSH TERMS MUST BE  
RENEGOTIATED, ESPECIALLY 25 MILLION DOLS FROM SPAIN AND 800  
THOUSAND DOLS FROM KOREA.

C) BALANCE OF PAYMENTS-- AFTER RESTRUCTURING THE  
EXTERNAL DEBT, DRAWING DOWN THE MAXIMUM STABEX COMPENSATION  
AND IMF CREDITS, THE BALANCE OF PAYMENTS IN 1978 WILL STILL  
BE 28 MILLION DOLS. IN DEFICIT.

9. THE REPORT CONCLUDES THAT MAURITANIA WILL NEED 607 MILLION  
DOLS IN CREDITS OVER THE NEXT THREE YEARS, MORE THAN  
HALF OF WHICH (376 MILLION DOLS) IS REQUIRED THIS YEAR.  
BUDGETARY SUPPORT COULD BE REDUCED BY FROM 3.3 MILLION  
DOLS TO 4.4 MILLION DOLS A YEAR IF THE SAHARA CONFLICT IS  
CONCLUDED. IT CALLS FOR A NEW DYNAMISM IN THE MINISTRY OF  
FINANCE, INCREASED AUTHORITY IN THE MINISTRY OF PLANS  
AND A REJUVENATION OF THE FISHING INDUSTRY THROUGH PRIVATE  
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ENTERPRISE.

10. COPY OF REPORT POUCHED TO AF/W AND INR/RAF. WE WELCOME AN  
ANALYSIS BY THE DEPARTMENT'S ECONOMIC EXPERTS. KRYZA

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## Message Attributes

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